GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1100
ANSWERED ON:23.11.2001
INTEREST RATES OF BANKS
BRAHMANAND MANDAL;JAGMEET SINGH BRAR;RAM SHAKAL;RAMDAS RUPALA GAVIT;YEMPARALA VENKATESWARA RAO

Will the Minister of FINANCE be pleased to state:

(a) whether RBI has cut the interest rates and CRR again in the month of October, 2001;

(b) if so, the details thereof alongwith the reasons therefor;

(c) whether the Government have evaluated the impact of such steps on small savings;

(d) if so, the details thereof; and

(e) the benefits achieved/likely to be achieved through this decision?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a) and (b) : On a review of macroeconomic and monetary developments, the Reserve Bank of India(RBI) reduced the Bank Rate by 0.50 percentage point from 7.0 per cent to 6.50 per cent with effect from the close of business on October 22, 2001.

In the mid-Term Review of Monetary and Credit Policy for the year 2001-2002 presented on October22, 2001, Cash Reserve Ratio (CRR) was reduced by 200 basis points to 5.50 percent from 7.50 percent of net demand and time liabilities (NDTL). Effective from the fortnight beginning November 3, 2001, CRR was reduced to 5.75 per cent and effective from fortnight beginning December 29, 2001, the CRR will be further reduced to 5.50 percent of NDTL.

(c), (d) and (e) : It is expected that the recent changes in policy with regard to CRR will facilitate thedevelopment of a short term yield curve, develop money market, reduce the regulatory arbitrage between banks and non-banks, enhance the availability of lendable resources with the banks and improve the efficiency of indirect instruments in the conduct of monetary policy. At the present level of NDTL, the combined impact of the measures will result in augmenting lendable resources of thebanking system by about Rs.8,000 crore (about Rs.6,000 crore effective from November 3, 2001). The reduction in CRR and consequent increase in lendable resources of the banking system should have a favorable impact on the economy.